

**APPROVED MINUTES
APPROVED ON 9/24/2018**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, June 25, 2018

**City Hall, Kiva Conference Room
3939 North Drinkwater Blvd
Scottsdale, AZ 85251**

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Councilmember
Kathy Littlefield, Councilwoman

STAFF: Sharron Walker, City Auditor
Paul Christiansen, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Helen Gandara, Assistant Chief of Police
Bill Murphy, Community Services Director
Kira Peters, Interim Library Director
Alan Rodbell, Chief of Police
Phillip Verver, Senior Budget Analyst

GUESTS: Sheila Collins, Library Board Chair
Sonnie Kirtley, Coalition of Greater Scottsdale
Sandy Schenkat

CALL TO ORDER

Chair Klapp called the meeting to order at 4:00 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, May 21, 2018

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE MAY 21, 2018 REGULAR MEETING AS PRESENTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion and Possible Direction to Staff Regarding Library Board Sunset Review

Cathleen Davis, Senior Auditor, stated that the Library Board's purpose is to advise the City Manager through the City Council on general policy relating to library operations. The Audit Committee is to evaluate whether the board or commission being reviewed is serving its intended purpose, whether the board or commission's purpose should be maintained or modified, and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is to recommend to the City Council whether to continue or terminate the board or commission.

Sheila Collins, Library Board Chair, addressed new initiatives and emphasis areas that the Board is focusing on this year. One initiative begun in February of this year was in support of outreach efforts and included wearing buttons that state, "Ask me. I'm a Library Board Member." This Roving Ambassadors initiative makes board members more visible to the public. Board members are always present at library events, interacting with the crowd and answering questions. They also attend outside events. Ms. Collins wore her button at the Culinary Festival and was stopped by attendees for questions and comments. The second area is advocacy. Board members endeavor to be available to decision makers who are making critical decisions on resources and services the library provides. Additionally, the Board wants to encourage development of a robust strategic plan with priorities and outcome-oriented metrics that the Board can periodically review. This will occur when the Library director position is formally filled. Lastly, the Board members feel strongly about supporting staff, particularly during the management transition, and the Library volunteers. In three-quarters of this year, the Library shop volunteers have brought in \$105,000.

Chair Klapp thanked Ms. Collins for her report. Councilmember Korte thanked the Board members for their volunteer time. Chair Klapp also noted that the last annual report reflected excellent attendance by Board members.

Councilmember Korte asked how the Board is related to the Heritage project. Ms. Collins said they are closely related, and just had an update provided directly to the Board. Many of the Board members have also been active financial supporters of the project and have served as advocates.

Councilwoman Littlefield noted that this is one of the most popular boards in the City. Whenever there is a vacancy, there are at least three to four candidates wishing to serve. She also observed that the annual reports show the Board is active in its ideas

and initiatives. Chair Klapp also noted the Friends of the Library volunteer group being available as well.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO CITY COUNCIL THE CONTINUANCE OF THE LIBRARY BOARD. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

3. Discussion and Possible Direction to Staff Regarding Audit No. 1808, Police On-Body Cameras

Sharron Walker, City Auditor, stated that this audit was conducted to evaluate record keeping, policies and compliance with policies for use of on-body cameras. The program began in FY 2012/13 with approximately ten cameras, increasing to 200 at the current time. The department has a general order that lays out the policy for camera use. When an officer makes a recording, at the end of the shift, they upload the recordings to Evidence.com, which is the camera manufacturer's website. The software logs various activities, including when a video is downloaded, viewed and shared. The audit reviewed certain technology controls and identified ways to improve access controls both to the Evidence.com site and the related City network folder. Some former employees still had access to these locations. Also 13 people had administrator rights, which are very powerful, including the ability to delete videos. Auditors recommended the department ensures that access rights to both Evidence.com and to the network folder are based on least access principles, providing just the access needed to do one's job.

When videos are uploaded, the officer categorizes and tags them. Categorization refers to the type of activity was recorded, such as felony or misdemeanor. Tagging is a description, such as department report number or incident number. The audit reviewed reports available at evidence.com and found 4,300 videos with no category attached. The category is important as it sets the records retention period in the system. There were 4,800 videos which were not tagged. Untagged videos are more difficult to find for a public records request or other reason. Approximately three-quarters of these videos were neither tagged nor categorized. Auditors recommended that the department review the reports for untagged and uncategorized videos, address those and go through this process on a more regular basis. Under the policy, supervisors have responsibility for ensuring that officers are uploading, tagging and categorizing their videos. The large volume of videos makes the supervisory review difficult. Auditors recommended that supervisors be given access to the reports auditors were able to see, as this will assist with efficiency of reviews.

Auditors also reviewed policy recommendations of several professional law enforcement organizations, such as the Commission on Accreditation (CALEA) and the International Association of Chiefs of Police and a couple federal Department of Justice entities. This information is summarized in a report table on page 14. Auditors recommended the department take a look at areas identified as not currently addressed within its policy. These include areas like setting deadlines for video uploading and tagging. Ms. Walker noted that the department agreed with all the audit recommendations.

Chief Rodbell thanked the City Auditor's staff for the audit, noting that it is the first conducted of the new process. He reiterated that the program started with ten cameras as an experiment, gradually growing the program to where all patrol and traffic officers have the cameras as well as some other officers with public interaction. The department agrees with the audit recommendations and has already begun to put some into place. They will likely staff the review and tagging of untagged videos to get that done quickly. The intention is to institute all the recommendations by the end of the year.

Councilwoman Littlefield commented that in reading the report, her impression was that the program started out small, grew very quickly and is now beginning to show problems that arose from the fact that it had such a small beginning. She agrees with recommendations of the audit. To prevent individuals who are no longer with the department from having access codes they could use, it might be prudent to have this included as part of employment exit procedures. Chief Rodbell stated that the program supervisor now realizes that staff must notify him, so that he is made aware of any exits and can remove access to the data. There may be some reasons for a former officer's access, such as being called back to court, but that can be done through their sergeants.

Councilwoman Littlefield also commented that, as was recommended, all videos should be tagged and filed properly to ensure easy retrievability. She is glad the department agrees and is starting to address the recommendations.

Chair Klapp commented that she had the same note about having an employee exit checklist. She noted the Audit Committee has seen this in other audits regarding former employee access to systems. This probably needs to be a universal consideration so that employees are removed from proprietary or web-based systems as well as the City systems. Ms. Walker commented that with web-based systems becoming more prevalent in the City, this risk is more critical. Someone being removed from network access no longer provides additional assurance of not being able to access other systems. Committee members agreed this is an area that could be addressed on a larger scale than just the department. Ms. Walker stated she will follow up on this process.

4. Discussion and Possible Direction to Staff Regarding Audit No. 1804, Selected Job Order Contract (JOC) Construction Contracts

Ms. Walker noted that staff from the audited department was not available to attend this scheduled meeting, but if the Audit Committee has questions for the department, the report can be brought back to the next Audit Committee meeting.

Councilmember Korte recalled there was construction contract audit last year and asked when it was completed. Ms. Walker commented that a construction contract audit is done once a year, and they are generally completed in May or June.

Paul Christiansen, Senior Auditor, summarized that the audit focused on compliance with terms and effectiveness of contract administration. Three water resources contractors were selected, with one project for each contractor specifically reviewed. Overall, these contractors were paid approximately \$9.5 million in FY 17 with an estimated \$9.1 million for FY 18. Three main areas were examined:

- Project proposal evaluation phase
- Oversight during the project
- Documentation

For the project proposal evaluation phase, cost controls were found to be not very effective. The department does not use of a standard price book and does not have robust process or guidelines on negotiations and documentation. The subcontractor selection requirements are designed to ensure costs are reasonable and fair. However, those contract requirements were frequently not enforced in the three projects looked at. Staff review of contracts and proposals was not always documented or obtained. In one project, there was a requirement that the City Manager review the delivery method, however this approval was not obtained. One project appeared to be split into two projects, bypassing individual job order limits. Overall, the audit recommended the department develop and enforce stronger procedures for the job cost evaluation process review and approval to ensure that all required signatures and approvals are obtained and documented.

The second phase involved review of project delivery to ensure appropriate oversight. Auditors found that the department was not ensuring the approved subcontractors were the ones actually doing the work. Some pay requests from contractors were not reviewed and approved as required. In one instance, a contractor was paid before any approvals were obtained. Also, the required performance and payment bonds, which protect the City, were not always tracked and effectively monitored. One of the reviewed contractors had a bond coverage deficit of \$4.4 million. Auditors recommended the department monitor and approve any changes to the originally approved subcontractors. Also, the department should document all necessary approvals for pay requests and that bond coverages are appropriate for the amount of work being done.

The third reviewed area involved project documentation. The department maintained some documentation in print form and some was uploaded to the document management system. However, some documentation was missing, including some contractor cost proposals and negotiation documents, as well as a fair amount of project manager correspondence. Auditors recommended the department establish policies and procedures for consistent maintenance and retention of contracted-related documents. Overall, the department agreed to all recommendations and plans to complete them by May 2019.

Councilwoman Littlefield noted there have been several similar reviews performed with audit staff discovering much of the same problems repeatedly. Uncovered issues include lack of oversight, follow through, paperwork, signing off, checking to ensure work is performed properly and that proper materials are being used. The City needs to ensure that the specifications and terms of its contracts are followed before making final payment. Not doing so leads contractors to think they do not have to be as careful on City of Scottsdale contracts. Chair Klapp asked if some of the issues may result from the staff turnover, noting that (City Engineer) Dave Lipinski has only been in his position for approximately a year. Ms. Walker noted that Dave explained that some approvals are likely occurring verbally. But these approvals must be captured and documented. And Dave had agreed that they need to be more diligent about documentation. He said that the Capital Project Management group had just received approval to use electronic

records (the City's document management system) as their primary record keeping method and he believes this will help them to be more specific about records retention.

Chair Klapp suggested that rather than having the department come to the next Audit Committee meeting, the Committee instead ask for a report on progress due in three to four months. Since the department agreed with the recommendations, perhaps they could be asked to make a report on progress in three months rather than waiting until May to make the changes. Councilwoman Littlefield and Councilmember Korte stated they agreed.

Councilmember Korte referenced the earlier comment that some issues may be due to turnover, noting that these jobs took place in 2016 and 2017 and that 2016 would have predated the turnover. She surmised that the issue is more systemic with these audit issues sharing a common theme with last year's audit. There is the same lack of oversight, and the fact that a cost estimator is not used to price the jobs is very concerning. Councilmember Korte stated it should be communicated to the department that we are very concerned about the oversight of construction contracts and management of citizen dollars.

Chair Klapp commented the committee could say it is concerned about the results, we appreciate they are going to follow the recommendations, but we want to have regular reporting starting in three months on what they have done to correct the problems. Ms. Walker agreed that she could communicate this to the department.

Councilwoman Littlefield asked how often the department changes the companies it contracts with on the relatively small jobs. She inquired whether a review process is in place. She would be interested in hearing from them how often the companies change.

Ms. Walker noted that the previous audit three years ago focused more on the front end, involving the job order contract process. The job order contracts, which go before City Council for approval, are for an initial two-year term with possibility of renewal for three one-year periods. Some companies are being used pretty consistently. For example, in the water resources area, they like to have contractors who have become familiar with the facilities because they believe it makes it easier to get the work done. The department explained it uses the two-year contract with the possible one-year extensions to encourage the company to provide good customer service and high-quality work. In response to a question from Chair Klapp, Ms. Walker confirmed that the first two-year contract is as a result of an RFQ bid process.

Councilwoman Littlefield said there is really nothing to stop cozy relationships in terms of who is awarded the RFQ. She would like to see some form of standard applied as well as a documented process for each contract review and renewal. This should include points such as the financial capability and qualified personnel being evaluated and documented. Ms. Walker noted that there is an evaluation committee, within CPM, that reviews and selects proposals. Those concerns about using some of the same companies consistently contribute to why we review the documentation closely, such as performance and payment bonds, how they are evaluating the job order proposals, and evidence of meeting contract terms. Based on the construction contract audit results for the past three to four years, the plan is to continue auditing construction contracts until auditors find some progress made in these areas. Chair Klapp asked that Ms. Walker communicate to the department that the Audit Committee is concerned about the results

of the audit and would like closer monitoring until they can see progress is being made. Committee members concurred with the direction to Ms. Walker.

5. Discussion and Possible Direction to Staff Regarding Report No. 1810, External Quality Control Review of City Auditor's Office

Lai Cluff, Senior Auditor, stated she helped coordinate the external quality control review. This external peer review is required every three years to comply with government auditing standards. As part of the evaluation process, the peer review team looked at the Department's policies and procedures and quality control system to ensure they meet government auditing standards. They also selected several audits to review in more detail to verify that the auditors followed these policies and procedures and the standards. The peer review found that the office was in full compliance with government auditing standards.

Councilmember Korte congratulated the Department on a glowing report. Chair Klapp commended the Department and its staff, noting that it was recognized by your peers who know the kind of quality work being done. Ms. Walker commented that the team was very complimentary of audit staff's work and they also liked the framework that the City Charter and Code provide for the City Auditor's office.

Chair Klapp asked if the review team liked the office's webpage, noting that she finds the reports clear and simple to read and from her perspective, the department does a great job of reporting on audits through the webpage..

6. Discussion and Possible Direction to Staff Regarding Report No. 1812, FY 2017/18 Annual Follow Up on Status of Audit Recommendations

Ms. Walker reported that about 58 percent of audit recommendations were fully implemented and almost 8 percent partly implemented. Approximately 25 percent are in progress. Together that totals around 91 percent that management is taking some action on. Last year, those three categories totaled about 86 percent. Ms. Walker also compared current statistics to the first audit follow-up report from September 2009. At that time, approximately 67 percent were implemented, 10 percent in progress and 1/2 percent partly implemented. The total in some stage of action was 77 percent. Chair Klapp commented she was here in 2009 and she remembers how many recommendations were being implemented at the time. Moving from 77 to 91 percent is a tremendous improvement.

7. Discussion and Possible Direction to Staff Regarding Report No. 1813, FY 2017/18 Annual Report on City Auditor's Integrity Line

Ms. Walker stated that six hotline contacts were received, either through phone or email. Three were referred to other departments. One did not result in action. One citizen contact was not related to fraud but resulted in action related to improving efficiency. The report summarizes the contact, which involved receiving multiple bills for a \$10 alarm fee before the fee was even due. Auditors spoke with Business Services about this. The new director, who has been taking a look at improving efficiency, will include this

concern. Ms. Walker replied to let the citizen know this is being reviewed and the information was appreciated. Helping improve City practices like this is certainly an intent of the hotline.

8. Discussion and Possible Direction to Staff Regarding Status of FY 2017/18 Audit Plan

Ms. Walker stated that staff has completed all the planned audits. The last time they completed 100 percent of the plan was in 2012 or 2013.

9. Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting

Ms. Walker stated that the next meeting includes two sunset reviews and a TPRO update. The meeting may also include some activity or recognition in terms of the 30th anniversary of auditing in the City.

Public Comment

There were no public comments.

Adjournment

The meeting adjourned at approximately 4:54 p.m.

SUBMITTED BY:

eScribers, LLC